

GENERAL FUND BUDGET BALANCING STRATEGY

CURRENT SITUATION

- Need for a “not business as usual” strategy
- Impacts of a world-wide recession
- Fiscal Year 2009-10 estimated \$6.0M General Operating Fund deficit (this estimate is still changing)
 - Without action deficit projected to grow:
 - FY10-11 -\$10.0M
 - FY11-12 -\$14.3M
 - FY12-13 -\$15.1M

CURRENT SITUATION (cont.)

- Revenues declining
 - How deep for how long?
 - Major revenues impacted
 - Sales tax
 - Investment income
 - Property tax
 - TOT
 - Other miscellaneous
 - City revenues lag the economy

CURRENT SITUATION (cont.)

- Expenditures increasing
 - Cost of existing operations
 - Compensation costs for existing staff
 - Retirees' health insurance program
- Required reserves not being funded from operating budget
 - Equipment Replacement
 - Compensated Absences
 - Retirees' Health and updated valuation
- Other future year challenges
 - PERS rate increase (FY11-12)
 - Revitalization Authority expiration (FY10-11)

WHAT IS REQUIRED?

- A strategy that:
 - Has a multi-year perspective
 - Is sustainable
 - Avoids temporary “fixes”
 - Looks at both revenues and expenditures

WHY ARE WE HAVING THIS DISCUSSION?

- Current circumstances requires a different approach/ strategies/process than previous fiscal years
- This report is not about detailed budget recommendations
 - Outlines a proposed framework for preparing General Operating Fund recommendations
 - Purpose is to obtain City Council direction regarding an overall strategy to address the projected deficit

RECOMMENDATIONS

- Not attempt to fully balance the General Operating Fund budget “structurally” by July 1
- \$4.0M of estimated \$6.0M deficit be addressed by July 1 through expenditure reductions, expenditure growth management and revenue enhancements
- \$2.0M of the deficit to be temporarily addressed via reserves
- July 1 – December 31 process to address the remaining FY 2009-10 deficit and the projected FY 2010-11 deficit
- Stakeholder process be initiated

ASSUMPTIONS (“WHY”)

- Magnitude of impacts on residents, customers and employees
- Additional time needed to identify and evaluate alternatives
- Further expenditures reductions will be difficult
- Action is required to move toward a balanced budget to avoid escalating financial challenges
- Relying on short-term/temporary strategies not effective
- Potential prolonged recession with gradual recovery₈

STRATEGY COMPONENTS

- Use of reserves for \$2.0M of the projected deficit
- Use of additional reserves for:
 - Limited period expenditures
 - Equipment replacement
 - Retirees' health insurance
 - Compensated absences
 - Transition funding
- Dedication of Construction and Conveyance Tax to fund the annual Civic Center debt repayment of \$1.0M

STRATEGY COMPONENTS (cont.)

- Creating a “salary savings factor” of \$560,000
- Defer a planned increase of \$200,000 to the Equipment Replacement Reserve annual contribution
- Reduce capital equipment funding \$200,000
- Combination of expenditure reductions, expenditure increase avoidance and some modest revenue increases totaling \$2.2M
- Transfer of CIP Reserve balance above \$5.0M to Budget Contingency Reserve

USE OF RESERVES

- Significant reserves being used in this strategy
- Reserves can be of assistance in “buying time” to develop solutions, but they are not solutions
- This is not a problem the City will “grow out” of – it is not “self correcting”

BALANCING THE BUDGET ONLY WITH RESERVES

	<u>2009-10 Projected</u>	<u>2010-11 Projected</u>	<u>2011-12 Projected</u>	<u>2012-13 Projected</u>
Revenues (flat, 2%, 4%)	\$ 86,960	86,960	88,699	92,247
Expenditures	<u>92,930</u>	<u>96,965</u>	<u>103,019</u>	<u>107,392</u>
Balance	\$ (5,970)	(10,005)	(14,320)	(15,145)
Begin Bal Reserves	38,100	32,130	22,125	7,805
Use of Reserves	<u>5,970</u>	<u>10,005</u>	<u>14,320</u>	<u>15,145</u>
Reserve Balance	32,130	22,125	7,805	(7,340)
Total Reserves used				\$45,440
(Dollars in thousands)				

BALANCING THE BUDGET

PARTIAL USE OF RESERVES

	<u>2009-10</u> <u>Projected</u>	<u>2010-11</u> <u>Projected</u>	<u>2011-12</u> <u>Projected</u>	<u>2012-13</u> <u>Projected</u>
Revenues (flat, 2%, 4%)	\$ 86,960	86,960	88,699	92,247
Expenditures	<u>92,930</u>	<u>94,906</u>	<u>98,834</u>	<u>99,743</u>
Balance	\$ (5,970)	(7,946)	(10,135)	(7,496)
Reductions/Rev (1/3, 1/2, 1/2)	1,970	1,946	3,135	7,496
Use of Reserves	4,000	6,000	7,000	-0-
Begin Reserve Bal	38,100	34,100	28,100	21,100
End Reserve Bal	34,100	28,100	21,100	21,100
Total Reductions/Revenue Enhancements				\$ 14,547

(Dollars in thousands)

BALANCING THE BUDGET

NO USE OF RESERVES

	<u>2009-10</u> <u>Projected</u>	<u>2010-11</u> <u>Projected</u>	<u>2011-12</u> <u>Projected</u>	<u>2012-13</u> <u>Projected</u>
Revenues (flat, 2%, 4%)	\$ 86,960	86,960	88,699	92,247
Expenditures	<u>92,930</u>	<u>90,726</u>	<u>92,564</u>	<u>92,428</u>
Balance	\$ (5,970)	(3,766)	(3,865)	(181)
Reductions/Rev	5,970	3,766	3,865	181
Use of Reserves	-0-	-0-	-0-	-0-
Reserve Balance	38,100	38,100	38,100	38,100
Total Reductions/Revenue Enhancements				\$ 13,782
(Dollars in thousands)				

EXPENDITURE REDUCTION/COST CONTAINMENT STRATEGIES

- Tiers 1, 2 and 3
 - Not recommendation at this time
 - Examples/order of magnitude
 - Not asking for Council response to specific proposals at this time
- Consultations with employee organizations

ALTERNATIVES

- Adopt a “structurally balanced” budget effective July 1, 2009
- Primarily use reserves to balance the Fiscal Year 2009-10 budget

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SUMMARY/CONCLUSION

- General Operating Fund again facing financial stress
- Need to address this challenge as to avoid compounding effects of unbalanced budgets
- Recommended strategy unconventional and unique for the City
- Hybrid approach using real and sustainable actions and reserves to allow input from all affected parties
- Solve portion of deficit with FY09-10 budget adoption and work on remaining deficit plus FY10-11 budget in first six month of fiscal year
- Endorsement of recommended strategy

OTHER CITIES' RESERVES

<u>City</u>	<u>GF Reserve/Policy</u>
Campbell	20.0 to 32.0%
Cupertino	26.3%
Gilroy	15.0 to 25.0%
Los Altos	12.0%
Los Gatos	52.7%
Milpitas	15.0%
Morgan Hill	25.0%
Palo Alto	15.0 to 18.5%
San Jose	3.0%
Santa Clara	25.0%
Saratoga	20.0%
Sunnyvale	20.0%
Fremont	15.0%
Redwood City	15.0 to 20.0%
San Mateo	10.0% with goal of 25.0%

SPECIFIC PURPOSE RESERVES

	<u>Balance</u> <u>12/31/08</u>	<u>Policy</u> <u>Balance</u>
• GF Reserve:	\$22,100	22,100
• Budget Contingency:	5,000	5,000
• Capital Improvement:	11,018 (1)	5,000
• Park/Open Space:	3,000 (2)	3,000
• Strategic Prop Acquisition:	22,145	22,145

(Dollars in thousands)

(1) \$5.0 M undesignated

(2) \$674,000 designated for Del Medio Park in FY09-10 CIP

LIABILITY RESERVES

	<u>Balance 12/31/08</u>	<u>Policy Balance</u>
• GF Property Mgmt:	\$ 1,600	1,600
• Graham Site Maint:	963	963
• Child Care Ctr Financing:	1,410	1,575
• Compensated Absences:	7,818	8,548 (2)
• GF PERS Liability:	345	345
• Equipment Replacement:	14,934 (1)	14,934
• Workers' Comp:	5,029 (1)	4,443 (3)
• Liability Self-Insurance	3,569 (1)	2,382 (3)
• Retirees' Health:	37,033	66,642 (3)

(Dollars in thousands)

(1) These reserves have operating costs and there are 6 months of FY remaining

(2) Liability as of June 30, 2008 (3) Actuarial Liability

PRELIMINARY TIER 1 STRATEGIES

- Use Construction Conveyance Tax to pay Civic Center debt
- Reduce capital equipment budget by \$200,000
- Defer \$200,000 increase to equipment replacement annual contribution
- Implement “salary savings factor”
- Mitigate portion of costs for employee compensation increases
- Increase cost recovery for after-hours use of City Hall
- Increase cost recovery/fines for code enforcement
- Reduce outside legal support for code enforcement
- Reduce training/meeting expense and back-up clerical support in City manager’s Office
- Unfund clerical support position and eliminate various miscellaneous expenses in Employee Services

PRELIMINARY TIER 1 STRATEGIES

(cont.)

- Unfund two Senior Planner positions in Community Development
- Reduce specialized services funding for building maintenance
- Unfund a streets maintenance position
- Reorganization of Public Works Engineering Division resulting in reduced capacity
- Shift Public Works staff time to other funds as justified
- Reduce street maintenance supplies
- Reduce payroll and City-wide phone system support funds
- Unfund an Information Technology Analyst position
- Unfund Document Processing staffing by 0.50 of a position
- Reduce copier costs
- Reclassifications and reassignments of Finance and Administrative Services

PRELIMINARY TIER 1 STRATEGIES

(cont.)

- Reallocate partial/full position costs in Community Services to other funds as justified
- Reduce miscellaneous supplies/services for CPA
- Close CPA ticket office an additional day per week
- Increase CPA Facility Use Fee from \$2 to \$3/ticket
- Increase cost recovery charges to CPA users
- Eliminate contract maintenance at 5 City parks
- Reduce water usage at City parks by 10.0 percent
- Unfund a parks maintenance position
- Reduce Youth Sports Fee Waiver budget allocation
- Replace 0.50 Recreation Specialist position in aquatics with hourly staff
- Make preschool program completely self-supporting

PRELIMINARY TIER 1 STRATEGIES

(cont.)

- Reduce golf course pro shop staffing by 1.75 positions
- Reallocate 0.75 golf maintenance position to Solid Waste Fund
- Reduce the golf course Secretary position from 0.75 to 0.50
- Reduce/reallocate miscellaneous golf course support positions
- Collect Public Works land development fees at time of application
- Reduce Library supplies and staff development accounts
- Unfund 1.0 Librarian position
- Unfund 0.75 Library Administrative Analyst position
- Increase Library revenues
- Unfund 0.50 Senior Administrative Analyst position in Police
- Unfund Senior Systems Specialist position in Police

PRELIMINARY TIER 2 STRATEGIES

- Implement comprehensive effort to evaluate and increase cost recovery rate for programs serving specific populations
- Unfund one of two Code Enforcement Officer positions
- Unfund 0.50 Office Assistant in the City Clerk's Office
- Restrict the use of City Hall after hours
- Convert *The View* to digital-only format
- Eliminate hourly employees support to the multilingual outreach program
- Reduce staff resources devoted to supporting advisory commissions and committees
- Reduce City-wide staff development funding
- Unfund 0.50 Office Assistant position in Finance and Administrative Services

PRELIMINARY TIER 2 STRATEGIES

(cont.)

- Unfund Administrative Analyst hours in Finance and Administrative Services
- Realign Finance and Administrative Services Revenue Section
- Reduce development services support in Public Works
- Reduce traffic engineering support in Public Works
- Further reduce street maintenance staffing
- Reduce graffiti and shopping cart abatement staffing
- Eliminate Commuter Check Program funding
- Reduce clerical support in the Recreation Division
- Reduce ranger hours at Cuesta and Rengstorff Parks
- Reduce pressure washing of Castro Street sidewalks
- Reduce additional parks maintenance positions

PRELIMINARY TIER 2 STRATEGIES

(cont.)

- Reduce support to youth and adult sports programs
- Reduce Facilities Maintenance services
- Reduce Fleet Maintenance services
- Eliminate maintenance of street trees on private property
- Reduce Library materials budget
- Reduce Library hours/days of operation
- Reduce additional Library staffing
- Eliminate the use of the Mobile Library Services vehicle/program
- Reduce Fire Department Suppression Division minimum staffing
- Unfund the Public Education Specialist position in Fire
- Contract out the EMS Coordinator function in Fire
- Unfund one of two Deputy Fire Marshal positions

PRELIMINARY TIER 2 STRATEGIES

(cont.)

- Realign shifts and eliminate three Police Officer positions
- Reduce Police Records Specialist positions
- Reduce traffic enforcement resources
- Reduce Community Services Officer positions in Police
- Reduce funding to nonprofit agencies
- Implement the contracting out of more City services

PRELIMINARY TIER 3 STRATEGIES

- Evaluate the potential for placing on the ballot a tax augmentation proposal
- Evaluate discretionary service areas for potential elimination
- Evaluate alternative service delivery approaches (special districts, consolidation with other cities, etc.)
- Evaluate options of major organizational realignment, including departmental consolidation
- Creation of a maintenance assessment district for downtown public facilities
- Transfer of sidewalk maintenance obligations to property owners